# I. Introduction and Executive Summary

On August 22, 1996, the bipartisan welfare reform plan that is dramatically changing the nation's welfare system became law. The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) replaced the old welfare system, Aid to Families with Dependent Children (AFDC), with TANF. This new program focuses on work and responsibility and provides States with flexibility to create approaches that respond better to individual circumstances.

The strategies of requiring work and responsibility and rewarding families who have gone to work are paying off. Since the welfare reform effort began there has been a dramatic increase in work participation (including employment, community service, and work experience) among welfare recipients, as well as an unprecedented reduction in the caseload because recipients have left welfare for work.

This report compiles emerging data about welfare caseloads, family employment and earnings, marriage and two-parent families, out-of-wedlock births, and State policy choices, and gives a picture of the first five years of welfare reform. Below are some more extensive highlights describing both the information available to date and the research under way to learn more.

## Trends In Caseload and Expenditures

***States are making significant new investments in the TANF program.*** The total TANF expenditures (combined Federal funds and State MOE funds) for Fiscal Year (FY) 2000 were $24 billion, up from $22.6 billion for the previous year. This increased spending is attributable to significant new investments in supportive services in the TANF program, such as child care and activities to support work. Compared with FY 1999, spending on cash assistance decreased by $1.9 billion. In FY 2000, the total spending on basic cash assistance was $11.5 billion, compared with $13.4 billion in FY 1999. During the same period, States dramatically increased the amounts they spent through the TANF program (i.e., in addition to transfers) on child care for TANF families. In FY 2000, States reported spending $3.2 billion of combined Federal and State TANF funds on child care, while in FY 1999 they spent approximately $2 billion. The total spending on work activities in FY 2000 was $2.3 billion, an increase of 28 percent over the $1.8 billion spent in FY 1999. State increases in spending were due to their spending of reserved funds and actually increasing State maintenance-of-effort (MOE) funds.

***There continue to be dramatic declines in welfare caseloads.*** Remarkable declines in the Temporary Assistance for Needy Families program (TANF) caseloads continued through FY 2001. At the end of that fiscal year, the average monthly number of TANF recipients was 5.4 million, or 56 percent lower than the Aid to Families with Dependent Children (AFDC) caseload in FY 1996. From its peak of 14.4 million in March 1994, the number of recipients dropped by 63.2 percent to 5.3 million in September 2001. Over three-fourths of the reduction in the U.S.

average monthly number of recipients since March 1994 occurred following implementation of TANF. These are the largest caseload declines in the history of U.S. Public assistance programs. The 5.4 million persons receiving TANF in FY 2001 was the smallest number since 1967, and the lowest percentage of the population receiving assistance since 1961.

## Work Participation Rates

***The overall national average work participation rate decreased to 34.0 percent for FY 2000 from 38.3 percent for FY 1999.*** This is an 11.2 percent rate of decline. About 63 percent (2.7 percentage points out of 4.3 percentage points) of this decline is as a result of a change in the number of hours of participation required, from 25 hours to 30 hours, for a family to count as participating in the overall family participation rate. The two-parent national average participation rate decreased to 48.9 percent for FY 2000 from 54.7 percent in FY 1999. This is a 10.6 percent rate of decline. See Tables 3:1:a-c.

***Vermont claims waiver inconsistencies that exempt all cases from the participation rates (thus removing Vermont from any work participation rate requirements while the waivers are in effect).*** Of the 53 jurisdictions subject to the work participation requirements for FY 2000, all States, the District of Columbia, and Puerto Rico met their minimum overall work participation rate standard. Two Territories – Guam and the Virgin Islands – did not. Nineteen States exceeded the 40 percent statutory standard without using their caseload reduction credit. Thirty-one States had sufficient caseload reduction credits to drop their standard for the overall rate to zero.

***Seventeen States (Alabama, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Indiana, Maryland, Nebraska, New Jersey, North Dakota, Oklahoma, South Dakota, Tennessee, Utah, and Virginia) and two Territories (Puerto Rico and the Virgin Islands) did not have any two-parent families in the TANF program.*** Thus, they were not subject to the two-parent work participation requirements. Of the thirty-two States, the District of Columbia, and Guam that have two-parent family programs subject to a work participation rate, twenty-five States and the District of Columbia met the FY 2000 two-parent work participation rate standard. Eight jurisdictions failed to meet the two-parent work requirements: Alaska, Arkansas, Guam, Minnesota, Mississippi, New Mexico, North Carolina, and Wisconsin. Two States (Illinois and Rhode Island) met the two-parent standard without using their caseload reduction credit (although Rhode Island moved some two-parent families to a separate State program in order to meet the TANF minimum two-parent families participation rate standard). Two States (Missouri and Wyoming) had sufficient caseload reduction credits that their standard for the two-parent rate dropped to zero.

***A State-by-State comparison of the FY 2000 work participation rates with the FY 1999 work participation rates shows that the overall work participation rates increased for 21 States and decreased for 32 States.*** The two-parent families work participation rate increased for 15 States and decreased for 19 States. States with increasing rates have reported that the increases are due to: (1) gradual program improvements; (2) changes in State policies; (3) incorporating all allowable waiver provisions; and (4) more complete and accurate data reporting. States with decreasing participation rates have reported the declines are due to: (1) a change in the number of hours from 25 to 30 per week of participation required for a family to count as participating for the overall rate; (2) an increased proportion of hard-to-serve families; (3) improvements in the data collection system, as a result of shifting to the Final TANF Data Report, resulted in more accurate work participation rate estimates for FY 2000; (4) changes in State policies; and (5) moving two-parent families to a Separate State Program-Maintenance of Effort (SSP-MOE) Program.

## Employment and Earnings of Needy Families

***There has been a dramatic increase in employment of current and former welfare recipients***. A key measure of the success of welfare reform is its effect on employment. Analysis of all available sources of information shows that the employment rate of current and former TANF recipients has increased significantly.

***The percentage of working recipients remained at an all-time high for the second year in a row. In Fiscal Year (FY) 2000, 33 percent of adult recipients were working, compared to 11 percent in FY 1996.*** Thus, about one in three recipients was working in a typical month, the highest level ever recorded and over a three-fold increase since FY 1996. In FY 2000 the vast majority of recipients who were working were in paid employment (26 percent of the total number of recipients**,** or 80 percent of those working); others were engaged in work experience and community service.

***TANF administrative data for welfare recipients who remain on the rolls indicate that the average monthly earnings of those employed increased.*** Earnings increased from about $466 per month in FY 1996 to $533 in 1998, $598 in FY 1999, and $668 in FY 2000, increases of 14 percent, 12 percent, and 12 percent respectively.

***Current Population Survey (CPS) data, which are population based (not based just on welfare recipients), reveal that earnings for female-headed families have increased significantly between 1996 and 2000 (the latest year for which CPS data are available).*** Earnings are another important measure of how welfare reform is succeeding. CPS data reveal that earnings for female-headed families increased significantly between 1996 and 2000. These increases have been particularly notable for the bottom two income quintiles, that is, the 40 percent of those families with the lowest income. These groups include the women who are most likely to be former or present welfare recipients. Thus, whereas in 1996 only 26 percent of all families in the bottom income quintile (before counting the effects of government transfers and taxes) of female-headed families with children had earnings in the course of the year, in 2000 almost half did (48 percent). In 1996, the average annual earnings of these families was $315; in 2000 it was $1,646 (both in constant 2000 dollars and averaged over all families in the quintile). In the second quintile, 87 percent had earnings in 1996 and 97 percent in 2000. For this group, real average annual earnings almost doubled, from $6,304 in 1996 to $11,509 in 2000.

## Child Poverty and Income

***The child poverty rate, as measured by the Census Bureau's official poverty measure, was 16.2 percent in 2000, the lowest rate since 1978. This is a 21 percent decrease from the 1996 rate***

***of 20.5 percent.*** Child poverty rates vary widely for different demographic groups. There are also significant differences in child poverty rates by marital status and race. A child living in a single-parent family is about four-and-one-half times as likely to be poor as a child living in a married-couple family. In married-couple families, about one child in twelve (8.2 percent) is poor, whereas 40 percent of the children living in a female-headed, single-parent family are poor.

The poverty rates for African American and Hispanic children have fallen dramatically in the past six years, although their poverty rates are still more than three times the rate for white, non-Hispanic children. This reflects the fact that minority children are more likely to be living in single-parent households. While one in ten white, non-Hispanic children is poor, about three in ten African American or Hispanic children are living in poverty. However, between 1996 and 2000, the African American child poverty rate dropped from 39.9 percent to 30.9 percent -- the lowest level on record. Over the same period, the Hispanic child poverty rate dropped from 40.3 percent to 28.0 percent -- the largest four-year drop on record.

## High Performance Bonus

***In December 2000, twenty-eight States won FY 2000 high performance bonuses.*** The overall national results were very impressive. Under the TANF program, annual bonuses are awarded to "high performing" States. For FY 2000, State performance was scored and ranked on four work measures: job entry rate, the success in the work force rate (a combination of the job retention rate and the earnings gain rate), and improvement in each of these two measures.

Based on the data from the 49 States that competed for the bonus, more than 1.2 million adults on welfare went to work between October 1998 and September 1999; 1.3 million went to work in the prior year. The decline in adults going to work could be attributed in part to the significant decline in the caseload between FY 1999 and FY 2000, ten percent for families and 13 percent for recipients. Retention rates were promising: 77 percent of those who entered employment were still working in the subsequent three-month period. The States also reported an average earnings increase of 22 percent for current and former welfare recipients from $2,114 in the first quarter of employment to $2,570 in the second following quarter.

## Out-of-Wedlock Births

***On September 21, 2001, the Department of Health and Human Services (DHHS) announced the award of $75 million to the three States achieving the largest decreases in out-of-wedlock births between 1996 and 1999.*** Under the welfare reform law, annual bonuses are awarded to up to five States that experience the largest decreases in the ratio of out-of-wedlock births to all live births, and that also succeed in reducing the rate of abortions to live births. This year, only three States experienced a decrease in their out-of-wedlock ratios between 1996 and 1999. The awardees and the average reductions in the proportion of out-of-wedlock births achieved were the District of Columbia (3.9%), Alabama (0.24%), and Michigan (0.009%). Each jurisdiction received $25 million.

Previously, on September 15, 2000, DHHS announced the award of $100 million to the five States achieving the largest decreases in out-of-wedlock births between 1995 and 1998. The awardees and the reductions in the proportion of out-of-wedlock births achieved were the District of Columbia (4.13%), Arizona (1.38%), Michigan (1.34%), Alabama (0.29%), and Illinois (0.02%). Each jurisdiction received $20 million. After several decades of sharp increases, non-marital childbearing leveled off during the second half of the 1990s. The birth rate among unmarried women in 1999 remained nearly unchanged from 1998 and is five percent lower than the peak reached in 1994, while the proportion of births occurring outside of marriage has remained in the range of 32 to 33 percent.

## Formation and Maintenance of Two Parent Families

Though the direct activities addressing family formation goals in TANF are limited, there are several States beginning to address the issue. Examples include:

- Arizona's State legislature has established a Marriage and Communications Skills Commission. In addition the governor signed a bill that allocates $1.65 million of TANF funds for grants for community-based marriage and communication skills programs; vouchers to married or cohabiting parents whose income is less than 150 percent of poverty to attend marriage skills training courses; and the development and printing of a marriage handbook by the Marriage and Communication Skills Commission.

- In Oklahoma, the governor set aside $10 million out of the TANF reserve fund to be used to strengthen marriage and reduce divorce.

- Utah has a Governor's Commission that is focusing attention on strengthening marriages in Utah.

## Demographic and Financial Characteristics of Families Receiving Assistance In FY 2000

***There was little change in the racial or ethnic composition of TANF families in FY 2000.*** African American families comprised 39 percent of TANF families. White families comprised 31 percent of TANF families, and 25 percent were Hispanic. In addition, 1.6 percent were Native American, and 2.2 percent were Asian. Of all newly approved families, 39 percent were African American families, 37 percent were white families, and 20 percent were Hispanic. Of all closed-case families, 36 percent were African American families, 38 percent were white families, and 21 percent were Hispanic.

***The average number of persons in TANF families was 2.6.*** TANF families averaged two recipient children, unchanged from FY 1999. Two in five families had only one child. One in ten families had more than three children. The average number of children in closed-case families was only 1.8.

***Sixty percent of TANF families had only one adult recipient, four percent included two or more adult recipients, and 35 percent had no adult recipients.*** In 15 States, there were no two-parent family cases to be used in calculating the work participation rate. These States placed two-parent families under Separate State Programs-Maintenance of Effort (SSP-MOE programs). About 35 percent of TANF families had no adult recipients, up about 5.4 percentage points from FY 1999. Even though the percentage of child-only cases on the welfare rolls has continued to increase in the past several years and the number increased from FY 1999 to FY 2000, the total number of child-only cases has actually declined by about 200,000 since FY 1996.

***Of TANF families receiving assistance, 98 percent received cash and cash-equivalent assistance, the same percentage as in FY 1999, with an average monthly amount of $349 under the State's TANF program, down from $357 in FY 1999.*** The monthly cash payment to TANF families was $285 for one child, $356 for two children, $423 for three children, and $516 for four children or more. Some TANF families, who were not employed, received other forms of assistance such as child care, transportation, and other supportive services.

## Child Support

***DHHS reports nearly 1.6 million paternities were established or acknowledged in FY 2000***. In FY 2000, the Child Support Enforcement (CSE) program collected almost $18 billion, an increase of 12 percent from FY 1999, and a 49 percent increase since FY 1996. The Federal government collected almost $1.5 billion in overdue child support from Federal tax refunds alone. The Passport Denial Program collected over $3.5 million in FY 2000. The nearly 1.6 million paternities established or acknowledged in FY 2000 represent an increase of 47 percent over the 1.1 million reported in 1996.

## Tribal TANF

About 35,000 American Indian families were served by State governments in FY 2000, down from about 40,000 in FY 1999. By September 2001, Tribal TANF programs were serving approximately 17,000 families. Some Tribes also operate Native Employment Works (NEW) programs either independently or in conjunction with their TANF programs.

The number of Tribal TANF grantees has steadily increased since the first three Tribal TANF programs started in July 1997. As of September 30, 2001, 34 Tribal TANF plans covering 172 Tribes and Alaska Native villages had been approved, all of which are fully operational. Twenty-seven of the approved plans involve individual Tribes and seven are multi-Tribal TANF operations. Of the seven multi-Tribal TANF grantees, three are inter-Tribal consortia in California, three are Alaska Native Regional Nonprofit Associations, and one is in the State of Washington.

## State Policy Choices

***States are promoting work in their TANF programs through a combination of requirements, incentives, and other policy changes***. Under TANF, parents or caretakers must engage in work (as defined by the State) when determined ready, or no later than 24 months, whichever is earlier. Thirty States require work immediately upon receipt of benefits. Eight States require work within six months or less of receipt of benefits. Twelve States require work at 24 months of receipt of benefits. Under a waiver, one State requires work within 30 months of receipt of benefits. Illinois stops the clock for working families.

***States have also made a number of policy changes to expand aid to working families***.

- As a means to help families transition from welfare to work, all States disregard a portion of a family's earned income when determining benefit levels, and many States also disregard a portion of earned income in determining eligibility. States made changes (from the previous AFDC policy) to the way earnings are treated generally in one of three ways. They:

  disregarded a different percentage of all earnings (e.g., Idaho disregards 60 % of earnings);

  disregarded a different fixed dollar amount (e.g., Wyoming disregards $200 per adult); or

  provided disregards that combined a different fixed dollar amount and a percentage of the remaining earnings (e.g., Rhode Island disregards $170 plus 50 percent of the remaining earnings). Many States also extended the period of time for which disregards were available, or made the disregards available without a time limit.

- Every State, except Ohio, denies eligibility to families with countable assets above specified limits. However, most States increased the limits above the former AFDC program limit of $1,000. The higher limits for families range from $1,500 to $8,000. Additionally, several States apply higher asset levels if households include an elderly or disabled person, or more than one adult. Every State increased the vehicle asset level above the prior AFDC limit for the family's primary automobile. Twenty-eight States have chosen to simply disregard the value of at least one automobile for a family. The remaining States exclude a portion of a car's value ranging from $4,000 up to $12,000.

- The TANF statute specifically authorizes States to fund Individual Development Accounts (IDAs) established by TANF-eligible individuals. Thirty-one States allow TANF recipients to establish IDAs. IDAs are restricted savings accounts that allow individuals to accumulate savings that can be used for post-secondary educational expenses, first home purchase, or business capitalization. The IDA program in the TANF statute allows individuals to contribute to an IDA such amounts as are derived only from earned income (while other IDAs might allow contributions to come from any source of income). Funds in a TANF IDA (including earned interest) are disregarded in determining eligibility and benefits in any program that uses financial considerations in such determinations. Because of the funding flexibility under TANF, States could also use Federal TANF or State MOE funds to fund IDAs established under another authority

***Some States are experimenting with programs to promote marriage and father involvement.***

- At least 33 States have eliminated restrictions on two-parent families, such as the requirement under the previous AFDC program that one parent be either incapacitated or unemployed.

- A few States -- including Florida, Maryland, Minnesota, and Oklahoma -- reduce marriage license fees for couples who participate in premarital education or counseling.

- Several States -- including Maine, Mississippi, New Jersey, North Dakota, Oklahoma, and Tennessee -- disregard the income of a stepparent or new spouse for TANF purposes under certain conditions. Conversely, Oklahoma includes the income of both individuals in an unmarried, cohabiting couple.

- West Virginia adds a flat $100 payment to a family's monthly benefits if both parents are married, live in the household, and are named in the assistance check.

- Many States use TANF, title IV-D child support, or State funds to support community-based activities to help fathers become more involved in their children's lives or strengthen relationships between mothers and fathers. Activities include education and employment services, parenting education, training in communication and conflict resolution, marriage education and family counseling, and other services.

- The Partners for Fragile Families demonstration projects are local collaborations of community-based organizations, child support enforcement agencies, and faith-based partners to help young fathers become more involved with their children and to help mothers and fathers build stronger parenting partnerships.

- A number of governors have made strong statements in support of marriage or convened a conference on marriage. A few States -- including Arizona, South Carolina, and Utah -- have established commissions on marriage. South Carolina's commission, for example, develops policies that support the institutions of marriage and the family. This Commission on Marriage and the Family will compare South Carolina policies that affect marriage and the family with policies in other States and will make recommendations for changes in South Carolina policy.

- Oklahoma has dedicated $10 million in TANF funds for Marriage Initiative programs and services, including relationship educational services for married and unmarried couples.

***State policies to limit the time that families may receive TANF assistance vary.***

- States may not use Federal funds to provide cash assistance to a family that includes an adult head of household or a spouse of the head of household who has received assistance for 60 months (whether or not consecutive). However, States may extend federally funded assistance beyond 60 months to up to 20 percent of the caseload, without penalty, based on hardship. In addition, such assistance may be extended if the family includes an individual who has been battered or subjected to extreme cruelty. States also have the option to set lower time limits on the receipt of TANF benefits.

- Thirty-eight States apply a 60-month lifetime limit.

- Six States continue to provide assistance to children in the family after the adults in the family reach the time limit and no longer receive assistance (California, District of Columbia, Maryland, Nebraska, New York, and Rhode Island). In addition, South Dakota and Colorado will continue benefits to children under certain circumstances.

- Three States have a 24-month or shorter lifetime limit (Arkansas, Connecticut, and Idaho).

- Four States have a general 36-month or 48-month lifetime limit (Delaware, Florida, Georgia, and Utah).

- Two States do not have lifetime limits (Massachusetts and Michigan) and will use State-only funds to continue cash benefits beyond 60 months.

- Eleven States continued to operate under waiver policies that either exempted certain families from the time limit, did not count months of cash assistance toward the time limit under specified circumstances, or allowed extensions of cash assistance beyond 60 months under waiver policies that did not limit such exemptions to 20 percent of the caseload (Arizona, Connecticut, Delaware, Hawaii, Indiana, Nebraska, Oregon, South Carolina, Tennessee, Virginia, and Vermont).

- Three States continue waiver policies that result in delaying the counting of months against the Federal time limit for their entire caseload (Arizona, Indiana, and Vermont). However, Arizona and Indiana apply State-only time limits that terminate cash benefits for adults only.

***Most State TANF programs have implemented office procedures to assess or screen individuals for barriers to employment such as domestic violence, learning disabilities, physical disabilities, alcohol and other drug dependence, depression, and other mental health issues.***

- Fifty States have procedures to identify domestic violence, and forty-four States target intensive services towards that barrier.

- Thirty-eight States have procedures to identify depression, and thirty States target intensive services towards that barrier.

- Forty States have procedures to identify other mental health issues, and thirty-three States target intensive services towards that barrier.

- Forty States have procedures to identify learning disabilities, and thirty-one States target intensive services towards that barrier.

- Forty-four States have procedures to identify physical disabilities, and thirty-four States target intensive services towards that barrier.

- Forty-four States have procedures to identify alcohol dependence, and thirty-eight States target intensive services towards that barrier.

- Forty-four States have procedures to identify drug dependence, and thirty-eight States target intensive services towards that barrier.

***Most States are offering up-front payments or services to divert families from entering the welfare rolls.*** PRWORA contains no specific diversion provisions. Because the law is silent on diversion, it allows States to provide diversion assistance. The majority of States now offer applicant diversion assistance to families as an alternative to ongoing TANF assistance. Generally, this assistance comes in the form of benefit payments designed to provide short-term financial assistance to meet critical needs in order to secure or retain employment. Typically, States provide several months of benefits in one lump sum. A few States provide a flat amount. By accepting the diversion payment, the family generally agrees not to re-apply for cash assistance for a specified period of time, e.g., receipt of a diversion payment equal to three months of benefits results in a family agreeing not to re-apply for benefits for three months. A number of diversion programs provide applicant job search and other services and/or referral to alternative assistance programs. Thirty-three States now offer applicant diversion assistance, down from 34 in FY 1999.

***The majority of States have certified that they have adopted the "Family Violence Option" to screen and identify victims of domestic violence, refer them to counseling and supportive services, and provide appropriate waivers of program requirements.*** Forty States have certified that they have implemented this provision, up from 38 States in FY 1999. This figure includes Colorado and Indiana, which provided certification since January 2000. All other States are providing related services for victims of domestic violence, but have not yet adopted the Family Violence Option**.**

***A number of States have taken steps to devolve program responsibilities to the counties.*** PRWORA provides that the TANF program must serve all political subdivisions of the State, but not necessarily in a uniform manner. Unlike prior law, there is also no requirement for "single State agency" administration. Thus, States have flexibility to devolve more responsibility for program design and administration to local governments than existed under prior law. While no States have changed their primary form of administration (State administered or State supervised, locally administered), several have granted localities greater flexibility in the design and delivery of programs. Several have also reallocated responsibilities between traditional human services agencies and a variety of State workforce agencies.

***States are engaging in forums to share information and lessons learned.*** DHHS has sponsored a variety of forums to support these efforts. For example, the Welfare Peer Technical Assistance (TA) Network Project gives States an opportunity to link up and share information, as well as to train each other on emerging best practices. During FY 2000, the Peer TA Network sponsored 13 TA events covering such issues as job retention, transportation, learning disabilities, housing, domestic violence and substance abuse, individual development accounts, job development, developing rural partnerships, employer outreach, collaboration with faith-based organizations, and the experiences of welfare "leavers."

## Research Agenda

***DHHS has been engaged in the development of a research strategy to understand the recent transformations in health and human service programs.*** The research framework highlights principal themes associated with transformations in progress; major activities, underway or planned within DHHS and elsewhere, that are relevant to creating the requisite knowledge base;

data, performance measures, program evaluations and research needs; and opportunities for national leadership by DHHS.

DHHS' research agenda related to welfare reform has two main goals: (1) to increase the probability of success of welfare reform by providing timely, reliable data to inform policy and program design, especially at the State and local level where decision making has devolved; and (2) to inform the nation of policies chosen and their effects on children, families, communities, and social well-being.

As policy and program design devolve to State and local levels, it is vital that these levels of government have reliable information on which to base their decisions, that there is understanding at the national level of how increased flexibility is used, and that the effects of different policy and program choices are understood. Documenting, understanding, interpreting, and facilitating the exchange of information and experiences among States is essential to promote soundly based decisions to help States avoid unnecessary pitfalls and duplicative developmental efforts and to help assure the well-being of families and children.